

STATE OF SOUTH CAROLINA

(Caption of Case)

Proceeding to Establish Guidelines for an Intrastate
Universal Service Fund

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

COVER SHEET

DOCKET
NUMBER: 1997 - 239 - C

(Please type or print)
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DOCKETING INFORMATION (Check all that apply)

☐ Emergency Relief demanded in petition

☐ Request for item to be placed on Commission's Agenda
expeditiously

☐ Other:

INDUSTRY (Check one)	NATURE OF ACTION (Check all that apply)		
<input type="checkbox"/> Electric	<input type="checkbox"/> Affidavit	<input checked="" type="checkbox"/> Letter	<input type="checkbox"/> Request
<input type="checkbox"/> Electric/Gas	<input type="checkbox"/> Agreement	<input type="checkbox"/> Memorandum	<input type="checkbox"/> Request for Certification
<input type="checkbox"/> Electric/Telecommunications	<input type="checkbox"/> Answer	<input type="checkbox"/> Motion	<input type="checkbox"/> Request for Investigation
<input type="checkbox"/> Electric/Water	<input type="checkbox"/> Appellate Review	<input type="checkbox"/> Objection	<input type="checkbox"/> Resale Agreement
<input type="checkbox"/> Electric/Water/Telecom.	<input type="checkbox"/> Application	<input type="checkbox"/> Petition	<input type="checkbox"/> Resale Amendment
<input type="checkbox"/> Electric/Water/Sewer	<input checked="" type="checkbox"/> Brief	<input type="checkbox"/> Petition for Reconsideration	<input type="checkbox"/> Reservation Letter
<input type="checkbox"/> Gas	<input checked="" type="checkbox"/> Certificate	<input type="checkbox"/> Petition for Rulemaking	<input type="checkbox"/> Response
<input type="checkbox"/> Railroad	<input checked="" type="checkbox"/> Comments	<input type="checkbox"/> Petition for Rule to Show Cause	<input type="checkbox"/> Response to Discovery
<input type="checkbox"/> Sewer	<input type="checkbox"/> Complaint	<input type="checkbox"/> Petition to Intervene	<input type="checkbox"/> Return to Petition
<input checked="" type="checkbox"/> Telecommunications	<input type="checkbox"/> Consent Order	<input type="checkbox"/> Petition to Intervene Out of Time	<input type="checkbox"/> Stipulation
<input type="checkbox"/> Transportation	<input type="checkbox"/> Discovery	<input type="checkbox"/> Prefiled Testimony	<input type="checkbox"/> Subpoena
<input type="checkbox"/> Water	<input type="checkbox"/> Exhibit	<input type="checkbox"/> Promotion	<input type="checkbox"/> Tariff
<input type="checkbox"/> Water/Sewer	<input type="checkbox"/> Expedited Consideration	<input type="checkbox"/> Proposed Order	<input type="checkbox"/> Other: _____
<input type="checkbox"/> Administrative Matter	<input type="checkbox"/> Interconnection Agreement	<input type="checkbox"/> Protest	
<input type="checkbox"/> Other: _____	<input type="checkbox"/> Interconnection Amendment	<input type="checkbox"/> Publisher's Affidavit	
	<input type="checkbox"/> Late-Filed Exhibit	<input type="checkbox"/> Report	

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July 27, 2007

The Honorable Charles Terreni
Chief Clerk of the Commission
Public Service Commission of South Carolina
Post Office Drawer 11649
Columbia, South Carolina 29211

Re: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund
Docket No. 97-239-C

Dear Mr. Terreni:

Enclosed for filing are the original and (1) copy of BellSouth Telecommunications, Inc.'s d/b/a AT&T South Carolina ("AT&T") Brief Addressing Cost Updates and Comments Addressing Administrative Issues in the above-referenced matter.

By copy of this letter, I am serving all parties of record with a copy of this pleading as indicated on the attached Certificate of Service.

Sincerely,

Patrick W. Turner

PWT/nml
Enclosure
cc: All Parties of Record
DM #685542

THIS DOCUMENT IS AN EXACT DUPLICATE OF THE E-FILED COPY SUBMITTED TO THE COMMISSION IN ACCORDANCE WITH ITS ELECTRONIC FILING INSTRUCTIONS.

BEFORE THE
PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA

DOCKET NO. 97-239-C

IN RE:)
)
Proceeding to Establish Guidelines for an)
Intrastate Universal Service Fund)
_____)

**AT&T'S BRIEF ADDRESSING COST UPDATES
AND COMMENTS ADDRESSING ADMINISTRATIVE ISSUES**

By Order dated June 27, 2007, the Public Service Commission of South Carolina ("the Commission") granted the parties to this docket the opportunity to: (1) file briefs addressing their proposed approach to updating the "cost studies and the resultant cost per line used in the calculation for the [State] Universal Service Fund;" and (2) file comments addressing four administrative issues the Office of Regulatory Staff ("ORS") has asked the Commission to consider regarding the State Universal Service Fund ("the State USF").¹ In accordance with that Order, BellSouth Telecommunications, Inc. d/b/a AT&T South Carolina ("AT&T") respectfully submits this Brief and Comments.

I. OVERVIEW OF UNIVERSAL SERVICE CONCEPTS

The concept of "universal service" embodies the idea that the public interest is served by the widespread availability of affordable local exchange telephone service. Universal service has long been a public policy at both the state and federal level, and it

¹ See Order Addressing Cost Studies and Administrative Issues, *In Re: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund (USF)*, Order No. 2007-422 in Docket No. 1997-239-C at 2 (June 27, 2007).

was further defined and codified by Congress in the federal Telecommunications Act of 1996 (“1996 Act”). In the 1996 Act, Congress sought to encourage competition in the telecommunications industry while still ensuring that universal service would be preserved and advanced for consumers in all areas of the country. Consistent with the idea that universal service is the joint responsibility of both state and federal jurisdictions, in 1996, the South Carolina General Assembly directed the creation of the State USF, the purpose of which was to continue “South Carolina’s commitment to universally available basic local exchange telephone service at affordable rates.”²

When Congress opened up local exchange telephone markets to competition through the 1996 Act, a system of implicit subsidies (by which basic residential rates priced below costs were subsidized by above-cost rates for certain other services) was firmly in place. Congress, however, recognized that the implicit subsidies that traditionally supported universal service could not be maintained in a competitive marketplace, because competitors who have no obligation to serve all customers in the market will naturally tend to target only those customers who are charged above-cost rates or who provide a greater than average amount of revenues. These competitors are not required to price any of their services below costs, which means that unlike incumbent local exchange carriers (“ILECs”), they do not have to price any of their services well above costs to generate implicit subsidies. Accordingly, these competitors could easily price services below the ILEC’s above-cost rates. That is, in fact, what has happened since the South Carolina market was opened to competition in 1996 – competitive local exchange carriers (“CLECs”) have focused their efforts on serving

² See S.C. Code Ann. § 58-9-280(E).

business customers and high-revenue residential customers, and no CLEC has agreed to serve all customers in a given area even though any CLEC that did so could draw from the state USF just like ILECs can draw from that fund.

Congress, therefore, put mechanisms in place to preserve universal service in the new competitive telecommunications environment. In the 1996 Act, Congress directed the Federal Communication Commission (“FCC”) and the states to develop mechanisms to ensure that consumers in all regions have access to telecommunications services.³ Acknowledging that the costs of providing telecommunications services in high cost areas might prevent telephone subscribers from receiving telephone service, Congress provided that telephone customers in these areas were to have access to services at rates that were reasonably comparable to rates charged for similar services in lower cost areas.⁴ To accomplish this, Congress provided that the implicit subsidies that existed historically were to be made explicit.⁵ This then gave rise to the concept of state and federal universal service funds, from which the subsidies could continue to be provided.

At the same time that the federal government was approving the concept of a federal universal service fund, the South Carolina General Assembly enacted Section 58-9-280(E) of the South Carolina Code. This statute requires the Commission to establish a State USF to continue South Carolina’s commitment to universally available basic local exchange telephone service at affordable rates and to assist with the alignment of prices and/or cost recovery with costs. After holding extensive hearings, the Commission

³ See 47 U.S.C. § 254.

⁴ See *Id.*, § 254(b)(3).

⁵ See *Id.*, § 254(e).

implemented this statute in a series of Orders that the South Carolina Supreme Court recently affirmed.⁶

By reducing implicit support found in intrastate access rates and replacing it with explicit State USF support, the Commission not only addressed universal service in the short term, but also ensured the long term sustainability of universal service in a competitive market in South Carolina. The State USF established by the Commission is a critical element of the nation's overall telecommunications policy, and it is one that should be continued. AT&T, therefore, supports a State USF that provides support to carriers of last resort who bring essential services to high cost areas.

II. UPDATING COST STUDIES AND RESULTANT COST PER LINE

A. Background

State statutes direct the Commission to “establish a universal service fund (USF) for distribution to a carrier(s) of last resort.”⁷ The Commission is required to determine the size of the fund, which must be “the sum of the difference, for each carrier of last resort, between its costs of providing basic local exchange services and the maximum amount it may charge for the services.”⁸ In a 1998 Order, the Commission adopted the BenchMark Cost Proxy Model (BCPM) 3.1 as the forward-looking cost model to determine the costs that BellSouth, GTE South Inc., and United Telephone Company incur in providing basic local exchange services in South Carolina.⁹ Pursuant to this and

⁶ See *Office of Regulatory Staff v. South Carolina Public Service Comm’n*, ___ S.E.2d ___, 2003 WL 2555538 (S.C. June 25, 2007). By Order dated July 19, 2007, the Supreme Court denied rehearing.

⁷ S.C. Code Ann. §58-9-208(E).

⁸ *Id.*, §58-9-280(E)(4).

⁹ See Order on Universal Service Cost Models, *In Re: Proceeding to Establish Guidelines for an Intrastate Universal Service Fund*, Order No. 98-322 in Docket No.

subsequent Orders in the docket, the Commission sized the State USF and authorized various carriers of last resort to withdraw specified amounts of support from the fund to implement Phase I of the State USF.¹⁰

The BCPM cost model and resultant cost per line that the Commission adopted (and that the Supreme Court affirmed) demonstrated that AT&T is entitled to draw approximately \$170 million annually in support from the State USF.¹¹ In light of the time that has passed since this demonstration, AT&T is not opposed to the Commission's appropriately updating the cost model and resultant cost per line in this docket. AT&T respectfully submits the following approach to doing so for the Commission's consideration.

B. Updating Cost Models and Resultant Cost Per Line

To the extent the Commission decides to update cost models and resultant cost per line for carriers that are not "small LECs" in this docket, AT&T respectfully submits

1997-239-C at 72 (May 6, 1998). The Commission adopted different cost models or methodologies for determining the costs that certain "small LECs" incur in providing basic local exchange services in South Carolina. This is expressly permitted by the applicable statutes, which provide that "[s]ubject to the requirements of applicable federal law, a small LEC may define the term 'cost,' as used within [the statutes governing the State USF] and where applicable to a small LEC, to include all embedded costs as well as a reasonable contribution to universal local service, where applicable, until such time as these costs are recovered from other sources. See S.C. Code Ann. §58-9-280(J). As used in this statute, the term "small LEC" means "a rural telephone company as defined on February 8, 1996, in the federal Telecommunications Act of 1996." *Id.*, §58-9-10(14). Accordingly, AT&T's brief addresses only the manner in which the Commission should consider updating the cost studies and the resultant cost per line of companies that do not meet the statutory definition of "small LEC." While AT&T reserves the right to do so if necessary, in this brief AT&T does not take a position on the manner in which the Commission should consider updating the cost studies and the resultant cost per line of "small LECs."

¹⁰ While some carriers of last resort subsequently sought and received more than this "Phase 1" amount of funding, AT&T did not.

¹¹ AT&T, however, has never drawn more than approximately \$25 million annually (roughly 15% of the \$171 million it is entitled to draw) from the State USF.

that the Commission should use the new modified HAI model that AT&T has proposed in other states (including Texas). Since the Commission adopted the BCPM model in 1998, the FCC adopted the FCC Hybrid Cost Proxy Model/HAI Synthesis Model (which combines aspects of the BCPM, aspects of the HAI, and aspects of proposals of the FCC's staff and consultants) for federal Universal Service Fund purposes. As a result, the BCPM 3.1 is no longer maintained as an active cost model by any party, and it would be very difficult to make that model ready for use today.

Moreover, after the Commission adopted the BCPM nearly a decade ago, legacy BellSouth developed a similar geocoded-based model – the BellSouth Telecommunications Loop Model (BSTLM) – for use in UNE cost proceedings.¹² The Commission adopted the BSTLM in its UNE docket,¹³ as did seven other state Commissions in the former BellSouth territory in which it was filed. Since the merger of AT&T Inc. and BellSouth Corporation, AT&T has taken the front end of the BSTLM (that portion of the model that uses actual geocoded customer locations and services at each location to cluster customers and design the network) and combined it with the latest version of the HAI model to develop a new, improved universal service cost proxy model. AT&T respectfully submits that the resultant model using calculations at the Census Block Group (CBG) or cluster level (which addresses the few concerns the

¹² The BSTLM only produces loop investments and costs and, therefore, it is not a full universal service cost proxy model that includes switching, transport and expense modules. The BSTLM uses geocoded customer addresses, the types and quantities of services at each address, network guidelines, a Minimum Spanning Road Tree algorithm, and least-cost forward-looking technologies to develop forward-looking costs of loop facilities.

¹³ Docket No. 2001-65-C (Generic Proceeding to Establish Prices for BellSouth Telecommunications, Inc.'s Interconnection Services, Unbundled Network Elements and Other Related Elements and Services).

Commission expressed regarding the BCPM), is ideal for updating costs in this proceeding, and AT&T is willing and ready to defend this position if the Commission deems it necessary and appropriate. More specifically, AT&T is willing to participate in workshops to present overviews of its new modified HAI model to interested parties should the Commission determine that workshops are needed.

Finally, AT&T anticipates that it could provide updated cost information as described above approximately 120 days after the date of the Commission's Order requiring such updated information.

III. ADMINISTRATIVE ISSUES

AT&T's comments on the four administrative issues identified in the Commission's Order are set forth below.

A. Changing the fund year to match the state fiscal year.

The ORS suggests that it would be more administratively efficient to close out the fund fiscal year at the end of the state's fiscal year. While AT&T has no objection to this suggestion, AT&T respectfully submits that revenue reporting should continue to be based on a calendar year and that carriers should have sufficient time (approximately 45 days for AT&T) to incorporate any necessary changes into their billing systems.

B. Semi-annual adjustment of the fund.

The ORS suggests that carrier information be submitted in April each year and that the fund be adjusted in the second half of the year based on subsequent information it receives. AT&T has no objection to this request.

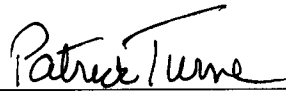
C. Time limit regarding overpayment errors.

ORS requests that the time for identifying reporting errors be limited to two years after the reporting period in question. AT&T has no objection to this request.

D. Fee for filing USF reports late.

ORS seeks to charge a fee for carriers that file USF reports late. AT&T is not opposed to such a fee, so long as the amount of the fee is reasonable.

Respectfully submitted,



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685545

STATE OF SOUTH CAROLINA)
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COUNTY OF RICHLAND) CERTIFICATE OF SERVICE

The undersigned, Nyla M. Laney, hereby certifies that she is employed by the Legal Department for AT&T South Carolina (“AT&T”) and that she has caused AT&T’s Brief Addressing Cost Updates and Comments Addressing Administrative Issues in Docket No. 97-239-C to be served upon the following this July 27, 2007:

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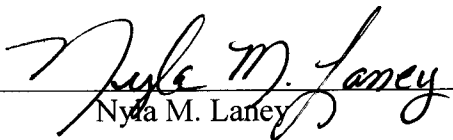
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